

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SHELBY COUNTY FISCAL COURT**

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Shelby County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Shelby County, Kentucky.

The financial statements of Shelby County 109 Taxing District and the Shelby County E911 Advisory Board, discretely presented component units, were audited by other auditors and have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Shelby County, Kentucky uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component units.

Financial Condition:

The fiscal court had total net assets of \$19,110,883 as of June 30, 2010. The fiscal court had unrestricted net assets of \$4,488,014 in its governmental activities as of June 30, 2010, with total net assets of \$18,883,555. In its business-type activities, total net cash and cash equivalents were \$223,353 with total net assets of \$227,328. The fiscal court's discretely presented component units had net assets of \$2,614,157 as of June 30, 2010. The discretely presented component units had net cash and cash equivalents of \$1,852,489. The fiscal court had total debt principal as of June 30, 2010 of \$30,452,205 with \$3,519,309 due within the next year.

Report Comments:

- | | |
|---------|--|
| 2010-01 | The Fiscal Court Should Maintain Proper Records For The Justice Center Public Properties Corporation Fund |
| 2010-02 | The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Expenditures |
| 2010-03 | The Jail Commissary Accounting Procedures Are Weak And Records Are Insufficient To Meet Minimum Accounting Standards |

Deposits:

The fiscal court deposits as of June 30, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$381,569

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement

The component units' deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Shelby County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Shelby County 109 Taxing District or the Shelby County E911 Advisory Board, discretely presented component units, which represent 80 percent and 20 percent of the assets and 58 percent and 42 percent of the revenues, respectively, of the discretely presented component opinion units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Shelby County 109 Taxing District and the Shelby County E911 Advisory Board is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Shelby County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of the Shelby County 109 Taxing District and the Shelby County E911 Advisory Board, discretely presented component units of the Shelby County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore, include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.



To the People of Kentucky
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In our opinion, based upon our report and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Shelby County 109 Taxing District and the Shelby County E911 Advisory Board's financial statements been prepared using the same basis of accounting as Shelby County, Kentucky, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component units of Shelby County, Kentucky, as of June 30, 2010, and the changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2010 on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
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Members of the Shelby County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2010-01 The Fiscal Court Should Maintain Proper Records For The Justice Center Public Properties Corporation Fund
- 2010-02 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Expenditures
- 2010-03 The Jail Commissary Accounting Procedures Are Weak And Records Are Insufficient To Meet Minimum Accounting Standards

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

December 15, 2010

SHELBY COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Rob Rothenburger	County Judge/Executive
Tony Carriss	Magistrate
Mike Whitehouse	Magistrate
Cordy Armstrong	Magistrate
Michael Riggs	Magistrate
Betty Curtsinger	Magistrate
Hubert Pollett	Magistrate
Allen Ruble	Magistrate

Other Elected Officials:

Hart Megibben	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Kathy Nichols	Circuit Court Clerk
Mike Armstrong	Sheriff
Brad McDowell	Property Valuation Administrator
Ronald Walldridge, Jr.	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Collector
Karen Blake	Finance Officer
Jenny King	Payroll Clerk

SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 15,617,536	\$ 223,353	\$ 15,840,889	\$ 1,852,489
Prepaid Insurance				40,450
Note Receivable	8,000		8,000	
Total Current Assets	15,625,536	223,353	15,848,889	1,892,939
Noncurrent Assets:				
Notes Receivable	103,000		103,000	
Restricted Assets				394,060
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	8,789,030		8,789,030	
Land and Land Improvements	2,106,070		2,106,070	35,559
Buildings	16,587,050		16,587,050	204,700
Equipment	937,197	3,975	941,172	587,767
Vehicles	1,332,034		1,332,034	347,350
Infrastructure	3,855,843		3,855,843	
Less Accumulated Depreciation				(729,702)
Total Noncurrent Assets	33,710,224	3,975	33,714,199	839,734
Total Assets	49,335,760	227,328	49,563,088	2,732,673
LIABILITIES				
Current Liabilities:				
Accounts Payable				118,516
Revenue Bonds	810,000		810,000	
Financing Obligations	2,709,309		2,709,309	
Total Current Liabilities	3,519,309		3,519,309	118,516
Noncurrent Liabilities:				
Revenue Bonds	21,225,000		21,225,000	
Financing Obligations	5,707,896		5,707,896	
Total Noncurrent Liabilities	26,932,896		26,932,896	
Total Liabilities	30,452,205		30,452,205	118,516
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$ 14,395,495	\$ 3,975	\$ 14,399,470	\$ 445,674
Restricted For:				
Inmate Accounts		98,323	98,323	
Debt Service	46		46	
Postclosure Landfill Costs				394,060
Unrestricted	4,488,014	125,030	4,613,044	1,774,423
Total Net Assets	\$ 18,883,555	\$ 227,328	\$ 19,110,883	\$ 2,614,157

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 7,268,113	\$ 109,626	\$ 1,271,965	\$ 43,434
Protection to Persons and Property	4,737,892	3,560,756	287,928	43,844
General Health and Sanitation	575,012	49,443	67,485	
Social Services	286,647			
Recreation and Culture	647,890			
Roads	1,804,687		599,784	1,226,977
Debt Service	1,256,563			
Total Governmental Activities	16,576,804	3,719,825	2,227,162	1,314,255
Business-type Activities:				
Jail Canteen	404,930	443,880		
Total Business-type Activities	404,930	443,880		
Total Primary Government	\$ 16,981,734	\$ 4,163,705	\$ 2,227,162	\$ 1,314,255
Component Units:				
Shelby County 109 Taxing District	\$ 1,187,451	\$ 43,704	\$ 67,427	\$
Shelby County E911 Board	646,134	501,506	212,914	
Total Component Units	\$ 1,833,585	\$ 545,210	\$ 280,341	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Contributed Capital By Sheriff

Unrestricted Investment Earnings

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (5,843,088)	\$	\$ (5,843,088)	\$
(845,364)		(845,364)	
(458,084)		(458,084)	
(286,647)		(286,647)	
(647,890)		(647,890)	
22,074		22,074	
(1,256,563)		(1,256,563)	
(9,315,562)		(9,315,562)	
	38,950	38,950	
	38,950	38,950	
(9,315,562)	38,950	(9,276,612)	
			\$ (1,076,320)
			68,286
			(1,008,034)
2,839,132		2,839,132	858,686
8,707		8,707	
370,841		370,841	
2,769,033		2,769,033	
403,953		403,953	
682,474		682,474	
2,689,523		2,689,523	7,000
22,959		22,959	
323,108	187	323,295	21,682
10,109,730	187	10,109,917	887,368
794,168	39,137	833,305	(120,666)
18,089,387	188,191	18,277,578	2,734,823
\$ 18,883,555	\$ 227,328	\$ 19,110,883	\$ 2,614,157

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	EMS Fund	Justice Center Public Properties Fund
ASSETS					
Cash and Cash Equivalents	\$ 2,221,114	\$ 1,237,577	\$ 158,814	\$ 18,031	\$ 11,240,476
Total Assets	<u>2,221,114</u>	<u>1,237,577</u>	<u>158,814</u>	<u>18,031</u>	<u>11,240,476</u>
FUND BALANCES					
Reserved:					
Encumbrances	158,100	46,364	7,146	4,879	
Unreserved:					
General Fund	2,063,014				
Special Revenue Funds		1,191,213	151,668	13,152	
Debt Service Fund					
Capital Projects Fund					11,240,476
Total Fund Balances	<u>\$ 2,221,114</u>	<u>\$ 1,237,577</u>	<u>\$ 158,814</u>	<u>\$ 18,031</u>	<u>\$ 11,240,476</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 15,617,536
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Notes Receivable Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds	111,000
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds	46,975,274
Accumulated Depreciation	(13,368,050)
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not	
Reported in the Funds	
Financing Obligations	(8,417,205)
Bonded Debt	(22,035,000)
Net Assets Of Governmental Activities	<u>\$ 18,883,555</u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 741,524</u>	<u>\$ 15,617,536</u>
<u>741,524</u>	<u>15,617,536</u>
	216,489
	2,063,014
741,478	2,097,511
46	46
<u></u>	<u>11,240,476</u>
<u>\$ 741,524</u>	<u>\$ 15,617,536</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>EMS Fund</u>
REVENUES				
Taxes	\$ 6,391,666	\$	\$	\$
Excess Fees	682,474			
Licenses and Permits	109,626			
Intergovernmental	938,411	1,418,058	2,276,815	10,084
Charges for Services	29,392		103,052	1,455,578
Miscellaneous	2,431,661	39,513	129,233	81,746
Interest	35,441	17,188	114	181
Total Revenues	<u>10,618,671</u>	<u>1,474,759</u>	<u>2,509,214</u>	<u>1,547,589</u>
EXPENDITURES				
General Government	2,721,785			
Protection to Persons and Property	686,471	720	2,239,930	2,042,709
General Health and Sanitation	576,045			
Social Services	282,466			
Recreation and Culture	611,636			
Roads		1,756,988		
Debt Service	1,526,368			
Capital Projects	165,484			
Administration	2,586,599	299,310	783,144	856,365
Total Expenditures	<u>9,156,854</u>	<u>2,057,018</u>	<u>3,023,074</u>	<u>2,899,074</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,461,817</u>	<u>(582,259)</u>	<u>(513,860)</u>	<u>(1,351,485)</u>
Other Financing Sources (Uses)				
Payment of General Obligation Bonds	(3,340,828)			
Financing Obligation Proceeds	3,340,828			17,156
Transfers From Other Funds	119,659	613,000	515,500	1,294,600
Transfers To Other Funds	(2,003,100)		(119,659)	
Total Other Financing Sources (Uses)	<u>(1,883,441)</u>	<u>613,000</u>	<u>395,841</u>	<u>1,311,756</u>
Net Change in Fund Balances	(421,624)	30,741	(118,019)	(39,729)
Fund Balances - Beginning	2,642,738	1,206,836	276,833	57,760
Fund Balances - Ending	<u>\$ 2,221,114</u>	<u>\$ 1,237,577</u>	<u>\$ 158,814</u>	<u>\$ 18,031</u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Justice Center Public Properties Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 6,391,666
		682,474
		109,626
823,583	96,643	5,563,594
		1,588,022
10,370		2,692,523
269,162	1,022	323,108
<u>1,103,115</u>	<u>97,665</u>	<u>17,351,013</u>
		2,721,785
		4,969,830
		576,045
		282,466
		611,636
		1,756,988
835,976	15,170	2,377,514
6,266,645		6,432,129
		4,525,418
<u>7,102,621</u>	<u>15,170</u>	<u>24,253,811</u>
<u>(5,999,506)</u>	<u>82,495</u>	<u>(6,902,798)</u>
		(3,340,828)
	420,000	3,777,984
		2,542,759
	<u>(420,000)</u>	<u>(2,542,759)</u>
		437,156
(5,999,506)	82,495	(6,465,642)
17,239,982	659,029	22,083,178
<u>\$ 11,240,476</u>	<u>\$ 741,524</u>	<u>\$ 15,617,536</u>

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds \$ (6,465,642)

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay 7,674,662

Depreciation Expense (1,099,629)

Assets Disposed of, Net Book Value (21,977)

Capital Assets Purchased By Shelby County Sheriff 22,959

Payment on Receivable Provides for Current Financial Resources to Governmental Funds, while at the Government-wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Assets. (8,000)

The Issuance of Long-Term Debt (e.g. bonds, financing obligations) Provides Current Financial Resources to Governmental Funds, while Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, however, Have No Effect on Net Assets.

Financing Obligation Proceeds (3,777,984)

Financing and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources

Financing Obligations Principal Payments 964,779

Bond Principal Payments 3,505,000

Change in Net Assets of Governmental Activities \$ 794,168

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SHELBY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

SHELBY COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 223,353	
Total Current Assets	<u>223,353</u>	
Noncurrent Assets:		
Capital Assets:		
Equipment	9,035	
Less Accumulated Depreciation	<u>(5,060)</u>	
Total Noncurrent Assets	<u>3,975</u>	
Total Assets	<u>227,328</u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	3,975	
Restricted for Inmate Accounts	98,323	
Unrestricted	<u>125,030</u>	
Total Net Assets	<u>\$ 227,328</u>	

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Inmate State Pay	\$ 15,620
Inmate Deposits	428,260
Total Operating Revenues	<u>443,880</u>
Operating Expenses	
Educational and Recreational	8,681
Inmate Account Refunds	153,721
Inmate Purchases	127,452
Inmate Fees	111,324
Depreciation	723
Miscellaneous	3,029
Total Operating Expenses	<u>404,930</u>
Operating Income (Loss)	<u>38,950</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>187</u>
Total Nonoperating Revenues (Expenses)	<u>187</u>
Change In Net Assets	39,137
Total Net Assets - Beginning	<u>188,191</u>
Total Net Assets - Ending	<u><u>\$ 227,328</u></u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Sales	\$ 443,880
Cash Payments To Vendors For Supplies	(404,207)
Net Cash Provided By Operating Activities	<u>39,673</u>
Cash Flows From Investing Activities	
Interest Earned	<u>187</u>
Net Cash Provided By Investing Activities	<u>187</u>
Net Increase (Decrease) in Cash and Cash Equivalents	39,860
Cash and Cash Equivalents - July 1, 2009	<u>183,493</u>
Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 223,353</u></u>
	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 38,950
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>723</u>
Net Cash Provided By Operating Activities	<u><u>\$ 39,673</u></u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS

June 30, 2010

SHELBY COUNTY
STATEMENT OF NET ASSETS –COMPONENT UNITS

June 30, 2010

	Shelby County 109 Taxing District	Shelby County E911 Advisory Board	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 1,306,951	\$ 545,538	\$ 1,852,489
Prepaid Insurance	40,450		40,450
Total Current Assets	<u>1,347,401</u>	<u>545,538</u>	<u>1,892,939</u>
Noncurrent Assets			
Restricted Assets	394,060		394,060
Capital Assets:			
Land	35,559		35,559
Structures	204,700		204,700
Equipment	387,861	199,906	587,767
Vehicles	347,350		347,350
Less Accumulated Depreciation	<u>(543,075)</u>	<u>(186,627)</u>	<u>(729,702)</u>
Total Noncurrent Assets	<u>826,455</u>	<u>13,279</u>	<u>839,734</u>
Total Assets	<u>2,173,856</u>	<u>558,817</u>	<u>2,732,673</u>
Liabilities			
Current Liabilities:			
Accounts Payable	<u>67,698</u>	<u>50,818</u>	<u>118,516</u>
Total Current Liabilities	<u>67,698</u>	<u>50,818</u>	<u>118,516</u>
Net Assets			
Invested in Capital Assets	432,395	13,279	445,674
Unrestricted	1,279,703	494,720	1,774,423
Restricted	<u>394,060</u>		<u>394,060</u>
Total Net Assets	<u><u>2,106,158</u></u>	<u><u>507,999</u></u>	<u><u>2,614,157</u></u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF ACTIVITIES – COMPONENT UNITS

For The Year Ended June 30, 2010

SHELBY COUNTY
STATEMENT OF ACTIVITIES –COMPONENT UNITS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes In Net Assets
				Component Units
Shelby County				
109 Taxing District	\$ 1,187,451	\$ 43,704	\$ 67,427	\$ (1,076,320)
Shelby County				
E911 Advisory Board	646,134	501,506	212,914	68,286
Total Component Units	<u>\$ 1,833,585</u>	<u>\$ 545,210</u>	<u>\$ 280,341</u>	<u>\$ (1,008,034)</u>
General Revenues:				
Property Taxes				858,686
Unrestricted Investment Earnings				21,682
Miscellaneous Revenues				<u>7,000</u>
Total General Revenues and Transfers				<u>887,368</u>
Change in Net Assets				<u>(120,666)</u>
Net Assets - Beginning (Restated)				<u>2,734,823</u>
Net Assets - Ending				<u><u>\$ 2,614,157</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. The financial statements of the Shelby County 109 Taxing District and the Shelby County E911 Board discretely presented component units are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting all assets and liabilities are recognized on the Statement of Net Assets. Revenues are recorded when earned and liabilities are recorded when incurred, regardless of timing of cash.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Shelby County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Shelby County Public Properties Corporation

The Shelby County Fiscal Court (Fiscal Court) established the Shelby County Public Properties Corporation (Corporation) for the purpose of financing the construction of a justice center. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as part of the reporting entity, and the Corporation's financial activity is blended with that of the Fiscal Court.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

Shelby County 109 Taxing District

The Shelby County 109 Taxing District (District) was established on April 14, 1970 by the orders of the Shelby County Fiscal Court. The District was organized for the establishment as a refuse disposal district for Shelby County. Financial information for the District is presented discretely within Shelby County's financial statements.

Audited financial statements for the Shelby County 109 Taxing District, a discretely presented component unit, may be requested by contacting the Shelby County 109 Taxing District, 419 Washington Street, Shelbyville, Kentucky 40065.

Shelby County E911 Advisory Board

The Shelby County E911 Advisory Board (Board) was established on November 20, 2007 by the orders of the Shelby County Fiscal Court. The Board was organized for the establishment of management control of the Shelby E-911 dispatch center. Financial information for the Board is presented discretely within Shelby County's financial statements.

Audited financial statements for the Shelby County E911 Advisory Board, a discretely presented component unit, may be requested by contacting the Shelby County E911 Advisory Board, 419 Washington Street, Shelbyville, Kentucky 40065.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Shelby County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Shelby County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

EMS Fund - This fund is used to account for the county emergency medical service activities. Revenues are received from patients and transfers from the General Fund.

Justice Center Public Properties Fund - The purpose of this fund is to account for the funds used to construct the Justice Center. After the project is completed, the fund will account for the debt service requirements of the bonds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Special Fund, and KACOLT Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, and Special Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund:

The KACOLT Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund:

The Justice Center Public Properties Fund is presented as a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Units

The financial statements present the following major discretely presented component units: Shelby County 109 Taxing District and the Shelby County E911 Board.

These component units are presented in separate columns in the combined financial statements. They are also reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	N/A
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 30,000	10-50
Intangibles	\$ 5,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Justice Center Public Properties Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Shelby County Fiscal Court: U.S. 60 Water District and West Shelby Water District

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Shelby County Fiscal Court: Triple S Planning and Zoning and Shelby County Parks and Recreation.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2010, the government's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the government's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$381,569

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SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,106,070	\$	\$	\$ 2,106,070
Construction In Progress	2,522,385	6,266,645		8,789,030
Total Capital Assets Not Being Depreciated	4,628,455	6,266,645		10,895,100
Capital Assets, Being Depreciated:				
Buildings	18,669,625	165,484		18,835,109
Equipment	1,463,283	184,632		1,647,915
Vehicles	3,379,926	612,961	(109,885)	3,883,002
Infrastructure	11,246,249	467,899		11,714,148
Total Capital Assets Being Depreciated	34,759,083	1,430,976	(109,885)	36,080,174
Less Accumulated Depreciation For:				
Buildings	(2,035,426)	(212,633)		(2,248,059)
Equipment	(669,408)	(129,218)	87,908	(710,718)
Vehicles	(2,294,373)	(256,595)		(2,550,968)
Infrastructure	(7,357,122)	(501,183)		(7,858,305)
Total Accumulated Depreciation	(12,356,329)	(1,099,629)	87,908	(13,368,050)
Total Capital Assets, Being Depreciated, Net	22,402,754	331,347	(21,977)	22,712,124
Governmental Activities Capital Assets, Net	<u>\$ 27,031,209</u>	<u>\$ 6,597,992</u>	<u>\$ (21,977)</u>	<u>\$ 33,607,224</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 9,035	\$	\$	\$ 9,035
Total Capital Assets Being Depreciated	9,035			9,035
Less Accumulated Depreciation For:				
Equipment	(4,337)	(723)		(5,060)
Total Accumulated Depreciation	(4,337)	(723)		(5,060)
Total Capital Assets, Being Depreciated, Net	4,698	(723)		3,975
Business-Type Activities Capital Assets, Net	<u>\$ 4,698</u>	<u>\$ (723)</u>	<u>\$ 0</u>	<u>\$ 3,975</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 20,910
Protection to Persons and Property	412,387
General Health and Sanitation	10,827
Social Services	4,181
Recreation and Culture	77,244
Roads, Including Depreciation of General Infrastructure Assets	<u>574,080</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,099,629</u>

Business-Type Activities

Jail Canteen	<u>\$ 723</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 723</u>

Capital asset activity for the discretely presented component units for year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Discretely presented major component units:				
Capital Assets Not Being Depreciated:				
Land	\$ 35,559	\$	\$	\$ 35,559
Total Capital Assets Not Being Depreciated	<u>35,559</u>			<u>35,559</u>
Capital Assets, Being Depreciated:				
Structure	204,700			204,700
Equipment	526,228	96,539	(35,000)	587,767
Vehicles	<u>347,350</u>			<u>347,350</u>
Total Capital Assets Being Depreciated	<u>1,078,278</u>	<u>96,539</u>	<u>(35,000)</u>	<u>1,139,817</u>
Less Accumulated Depreciation For:				
Structure	(54,682)	(6,315)		(60,997)
Equipment	(367,087)	(42,934)	35,000	(375,021)
Vehicles	<u>(259,530)</u>	<u>(34,154)</u>		<u>(293,684)</u>
Total Accumulated Depreciation	<u>(681,299)</u>	<u>(83,403)</u>	<u>35,000</u>	<u>(729,702)</u>
Total Capital Assets, Being Depreciated, Net	<u>396,979</u>	<u>13,136</u>		<u>410,115</u>
Capital Assets, Net	<u>\$ 432,538</u>	<u>\$ 13,136</u>	<u>\$ 0</u>	<u>\$ 445,674</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely component units as follows:

Shelby County 109 Taxing District	\$ 78,266
Shelby County E911 Board	<u>5,137</u>
Total Depreciation Expense - Component Units	<u><u>\$ 83,403</u></u>

Note 4. Long-term Debt

A. Financing Obligations - KACOLT Fund

1) US 60 Water District (Woodlawn)

On August 7, 1996, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$80,000. The purpose of the lease was for construction of rural water lines. The project was subleased to the US 60 Water District. The US 60 Water Districts gives the County enough money to cover the annual debt service payments required. The County then pays this money to the trustee. The balance of the receivable and the liability on June 30, 2010, was \$35,000.

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 5,000	\$ 2,142
2012	5,000	1,817
2013	6,000	1,464
2014	6,000	1,091
2015	6,000	683
2016	<u>7,000</u>	<u>266</u>
Totals	<u><u>\$ 35,000</u></u>	<u><u>\$ 7,463</u></u>

2) Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. The Mt. Eden Fire District gives the County enough money to cover the annual debt service payments required. The County then pays this money to the trustee. The balance of the receivable and the liability on June 30, 2010, was \$76,000.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

A. Financing Obligations - KACOLT Fund (Continued)

2) Mt. Eden Fire District (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 3,000	\$ 4,517
2012	3,000	4,332
2013	3,000	4,147
2014	4,000	3,906
2015	4,000	3,659
2016-2020	23,000	8,280
2021-2025	29,000	6,010
2026	7,000	36
Totals	<u>\$ 76,000</u>	<u>\$ 34,887</u>

B. Financing Obligation - General Fund

1) Meadowbrook Sewers

On June 21, 2001 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the construction of sewer lines. The lease term for this agreement is 10 years with the balance to be paid in full January 20, 2011. The total balance of the agreement is \$75,000 as of June 30, 2010. The following is a schedule of future minimum lease payments as of June 30, 2010:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 75,000	\$ 2,197
Totals	<u>\$ 75,000</u>	<u>\$ 2,197</u>

2) Ambulances

On October 21, 2009 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the purchase of four ambulances. The lease term for this agreement is 4 years with the balance to be paid in full October 20, 2013. The total balance of the agreement is \$368,749 as of June 30, 2010. The following is a schedule of future minimum lease payments as of June 30, 2010:

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

B. Financing Obligation - General Fund (Continued)

2) Ambulances (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 105,853	\$ 13,319
2012	109,875	8,977
2013	114,050	4,473
2014	38,971	460
Totals	<u>\$ 368,749</u>	<u>\$ 27,229</u>

3) Clear Creek Family Activities Center

Shelby County Fiscal Court entered into a lease agreement for \$3,340,828 with U.S. Bank dated March 1, 2010, to refund the general obligation bonds 1999 series (note 4D). This lease carries a variable interest rate with interest due on the 1st of the month starting on April 1, 2010, with the principal due on September 1, 2010. The County and the City of Shelbyville made principal payment of \$588,372 during the fiscal year, leaving a balance of \$2,752,456 as of June 30, 2010.

C. Financing Obligations - Jail Fund

On March 9, 2006, the County entered into a short-term lease in the amount of \$499,999 with Kentucky Association Of Counties Leasing Trust (KACOLT) to fund preliminary work on their detention center expansion. On May 25, 2006 the County entered into a lease-purchase agreement with KACOLT for the construction of the detention center expansion. The short-term lease of \$499,999 was paid off on July 27, 2006 with proceeds from this capital lease. The lease term for this agreement is 14 years with the balance to be paid in full January 20, 2019. The total balance of the agreement is \$5,110,000 as of June 30, 2010. The following is a schedule of future minimum lease payments as of June 30, 2010:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 245,000	\$ 208,040
2012	255,000	198,280
2013	270,000	188,916
2014	285,000	178,476
2015	300,000	156,193
2016-2019	3,755,000	465,589
Totals	<u>\$ 5,110,000</u>	<u>\$ 1,395,494</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. General Obligation Bonds, Series 1999

Shelby County Fiscal Court (County) issued general obligation bonds of \$5,200,000, series 1999, dated April 1, 1999, to fund the acquisition and construction of the Clear Creek Family Activities Center. These bonds were issued at varying interest rates ranging from 3.40% to 4.85%, and will be retired by August 1, 2020. Interest payments are due on February 1 and interest and principal August 1. Fiscal Court has entered into a lease agreement with the City of Shelbyville (City) and the Shelbyville/Shelby County Parks and Recreation Commissions (Parks Commission) for their portion of the bond issue. The City is responsible for \$500,000 in principal and interest payments; the Parks Commission \$2,200,000 in principal and interest payments and the County \$2,500,000 in principal and interest. The City and the Parks Commission make their payments to the County, which in turn pays the paying agent. The bonds were called on December 1, 2009.

E. Revenue Bonds

1) Series 2008

On November 1, 2008, the Shelby County Public Corporation issued \$9,750,000 of First Mortgage Revenue Bonds, Series 2008, for the purpose of funding the construction of a Justice Center. The Public Properties Corporation entered into an agreement with the Administrative Offices of the Courts (AOC) for the payments to be made by AOC while being tenants of the building. These bonds were issued at varying interest rates ranging from 3.50% to 4.25%, and will be retired by November 1, 2029. Interest payments are due on May 1 and interest and principal November 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2011	\$ 330,000	\$ 387,325
2012	340,000	375,600
2013	350,000	363,525
2014	365,000	351,012
2015	375,000	338,062
2016-2020	2,105,000	1,468,372
2021-2025	2,585,000	992,475
2026-2030	3,300,000	379,660
Totals	<u>\$ 9,750,000</u>	<u>\$ 4,656,031</u>

2) Series 2009

On March 1, 2009, the Shelby County Public Corporation issued \$12,285,000 of First Mortgage Revenue Bonds, Series 2009, for the purpose of funding the construction of a Justice Center. The Public Properties Corporation entered into an agreement with the Administrative Offices of the Courts (AOC) for the payments to be made by AOC while being tenants of the building. These bonds were issued at varying interest rates ranging from 2% to 4.4%, and will be retired by November 1, 2028. Interest payments are due on May 1 and interest and principal November 1. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

E. Revenue Bonds (Continued)

2) Series 2009 (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 480,000	\$ 438,076
2012	490,000	428,376
2013	500,000	417,226
2014	515,000	403,251
2015	530,000	387,576
2016-2020	2,910,000	1,675,580
2021-2025	3,490,000	1,100,339
2026-2029	3,370,000	303,075
Totals	<u>\$ 12,285,000</u>	<u>\$ 5,153,499</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 3,505,000	\$	\$3,505,000	\$	\$
Revenue Bonds	22,035,000			22,035,000	810,000
Financing Obligations	5,604,000	3,777,984	964,779	8,417,205	2,709,309
Governmental Activities					
Long-term Liabilities	<u>\$ 31,144,000</u>	<u>\$ 3,777,984</u>	<u>\$ 4,469,779</u>	<u>\$ 30,452,205</u>	<u>\$ 3,519,309</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$1,162,736 in interest on financing obligations and in interest on bonds

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$1,483,229; FY 2009 was \$1,393,816, and FY 2010 was \$1,511,513.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On February 24, 2000, the Shelby County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2010, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2003. All infrastructure assets placed in service during the fiscal year ended June 30, 2004, and thereafter are recorded at actual historical cost.

Note 10. Subsequent Events

On October 28, 2010 Shelby County Fiscal Court borrowed \$2,752,456 in financing obligations for the purpose of refinancing the lease agreement concerning the Family Activities Center (Note 4B (3)).

Note 11. Prior Period Adjustments – Discretely Presented Component Units

The beginning balance of the discretely presented component units was adjusted for the following reasons:

Shelby County 109 Taxing District

There were three prior period errors corrected by the Board. (1) Prepaid Insurance was expensed on the 6/30/09 financial statements, doubling the insurance costs and reducing income by \$43,203 for that period. (2) The purchase of accrued sick time in the amount of \$19,122 was recorded in fiscal year ended 6/30/05 as a payable and again in fiscal year ended 6/30/06 as an employee benefit. The payable remained on the Balance Sheet until this year. (3) Equipment and vehicles purchased in fiscal year ended 6/30/06 were expensed instead of being capitalized and depreciated. This resulted in lower income for that period and the incorrect amount of Capital Assets and Accumulated Depreciation and annual depreciation expense being reported that year and each subsequent year.

The effect of the restatement is to increase the beginning amount of current assets (prepaid insurance) by \$43,203, decrease the beginning amount of payables by \$19,122, increase fixed assets \$146,055 and Accumulated Depreciation \$168,538 and increase the beginning Unrestricted Net Assets by \$39,841. (Difference in addition due to rounding.)

Shelby County E911 Advisory Board

Include the June 30, 2009 balance of the Shelby County E911 Advisory Board. The Shelby County E911 Advisory Board was not included in the prior year audit.

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SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,124,500	\$ 5,124,500	\$ 6,391,666	\$ 1,267,166
Excess Fees	477,060	477,060	682,474	205,414
Licenses and Permits	111,700	111,700	109,626	(2,074)
Intergovernmental Revenue	533,500	631,414	938,411	306,997
Charges for Services	18,000	21,839	29,392	7,553
Miscellaneous	1,959,512	2,401,214	2,431,661	30,447
Interest	32,000	32,000	35,441	3,441
Total Revenues	8,256,272	8,799,727	10,618,671	1,818,944
EXPENDITURES				
General Government	2,950,604	2,991,430	2,721,785	269,645
Protection to Persons and Property	713,212	777,407	686,471	90,936
General Health and Sanitation	606,547	604,100	576,045	28,055
Social Services	314,000	290,851	282,466	8,385
Recreation and Culture	1,000,250	617,736	611,636	6,100
Debt Service	523,735	1,536,247	1,526,368	9,879
Capital Projects		165,484	165,484	
Administration	2,942,800	2,611,349	2,586,599	24,750
Total Expenditures	9,051,148	9,594,604	9,156,854	437,750
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(794,876)	(794,877)	1,461,817	2,256,694
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		119,659	119,659	
Transfers To Other Funds	(1,929,166)	(1,929,166)	(2,003,100)	(73,934)
Total Other Financing Sources (Uses)	(1,929,166)	(1,809,507)	(1,883,441)	(73,934)
Net Changes in Fund Balance	(2,724,042)	(2,604,384)	(421,624)	2,182,760
Fund Balance - Beginning	2,724,042	2,724,042	2,642,738	(81,304)
Fund Balance - Ending	\$ 0	\$ 119,658	\$ 2,221,114	\$ 2,101,456

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 500,000	\$ 500,000	\$	\$ (500,000)
Intergovernmental Revenue	1,383,725	1,422,640	1,418,058	(4,582)
Miscellaneous	15,000	15,000	39,513	24,513
Interest	7,500	7,500	17,188	9,688
Total Revenues	<u>1,906,225</u>	<u>1,945,140</u>	<u>1,474,759</u>	<u>(470,381)</u>
EXPENDITURES				
Protection to Persons and Property	1,000	1,000	720	280
Roads	1,687,226	1,798,175	1,756,988	41,187
Administration	421,000	348,966	299,310	49,656
Total Expenditures	<u>2,109,226</u>	<u>2,148,141</u>	<u>2,057,018</u>	<u>91,123</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(203,001)</u>	<u>(203,001)</u>	<u>(582,259)</u>	<u>(379,258)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			613,000	613,000
Total Other Financing Sources (Uses)			<u>613,000</u>	<u>613,000</u>
Net Changes in Fund Balance	(203,001)	(203,001)	30,741	233,742
Fund Balance - Beginning	<u>203,001</u>	<u>203,001</u>	<u>1,206,836</u>	<u>1,003,835</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,237,577</u>	<u>\$ 1,237,577</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,978,000	\$ 1,978,000	\$ 2,276,815	\$ 298,815
Charges for Services	145,000	145,000	103,052	(41,948)
Miscellaneous	92,000	92,000	129,233	37,233
Interest			114	114
Total Revenues	<u>2,215,000</u>	<u>2,215,000</u>	<u>2,509,214</u>	<u>294,214</u>
EXPENDITURES				
Protection to Persons and Property	2,370,397	2,370,397	2,239,930	130,467
Administration	840,340	840,340	783,144	57,196
Total Expenditures	<u>3,210,737</u>	<u>3,210,737</u>	<u>3,023,074</u>	<u>187,663</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(995,737)</u>	<u>(995,737)</u>	<u>(513,860)</u>	<u>481,877</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	995,737	995,737	515,500	(480,237)
Transfers To Other Funds			(119,659)	(119,659)
Total Other Financing Sources (Uses)	<u>995,737</u>	<u>995,737</u>	<u>395,841</u>	<u>(599,896)</u>
Net Changes in Fund Balance			(118,019)	(118,019)
Fund Balance - Beginning			<u>276,833</u>	<u>276,833</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 158,814</u>	<u>\$ 158,814</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

EMS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 10,000	\$ 20,084	\$ 10,084	\$ (10,000)
Charges for Services	1,510,000	1,510,000	1,455,578	(54,422)
Miscellaneous	46,000	42,602	81,746	39,144
Interest	500	500	181	(319)
Total Revenues	<u>1,566,500</u>	<u>1,573,186</u>	<u>1,547,589</u>	<u>(25,597)</u>
EXPENDITURES				
Protection to Persons and Property	1,581,179	2,060,276	2,042,709	17,567
Administration	918,750	883,495	856,365	27,130
Total Expenditures	<u>2,499,929</u>	<u>2,943,771</u>	<u>2,899,074</u>	<u>44,697</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(933,429)</u>	<u>(1,370,585)</u>	<u>(1,351,485)</u>	<u>19,100</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		17,156	17,156	
Transfers From Other Funds	933,429	1,353,429	1,294,600	(58,829)
Total Other Financing Sources (Uses)	<u>933,429</u>	<u>1,370,585</u>	<u>1,311,756</u>	<u>(58,829)</u>
Net Changes in Fund Balances			(39,729)	(39,729)
Fund Balances - Beginning			<u>57,760</u>	<u>57,760</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,031</u>	<u>\$ 18,031</u>

SHELBY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in Other Financing Sources and (Uses) is different due to refunding financing obligations proceeds being issued and payment for general obligation bonds.

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**SHELBY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

SHELBY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 482,015	\$ 259,463	\$ 46	\$ 741,524
Total Assets	<u>482,015</u>	<u>259,463</u>	<u>46</u>	<u>741,524</u>
FUND BALANCES				
Unreserved:				
Debt Service Fund			46	46
Special Revenue Funds	<u>482,015</u>	<u>259,463</u>		<u>741,478</u>
Total Fund Balances	<u>\$ 482,015</u>	<u>\$ 259,463</u>	<u>\$ 46</u>	<u>\$ 741,524</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 81,473	\$	\$ 15,170	\$ 96,643
Interest	374	648		1,022
Total Revenues	<u>81,847</u>	<u>648</u>	<u>15,170</u>	<u>97,665</u>
EXPENDITURES				
Debt Service			15,170	15,170
Total Expenditures			<u>15,170</u>	<u>15,170</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>81,847</u>	<u>648</u>		<u>82,495</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	420,000			420,000
Transfers To Other Funds	<u>(420,000)</u>			<u>(420,000)</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	81,847	648		82,495
Fund Balances - Beginning	400,168	258,815	46	659,029
Fund Balances - Ending	<u>\$ 482,015</u>	<u>\$ 259,463</u>	<u>\$ 46</u>	<u>\$ 741,524</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 15, 2010, wherein we issued a qualified opinion on the discretely presented component units and made reference to other auditors. Shelby County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Shelby County 109 Taxing District and Shelby County E911 Board, as described in our report on Shelby County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelby County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shelby County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-02 and 2010-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The Shelby County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

December 15, 2010

**SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2010

**SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

STATE LAWS AND REGULATIONS

2010-01 The Fiscal Court Should Maintain Proper Records For The Justice Center Public Properties Corporation Fund

Since the Fiscal Court is financially accountable and legally obligated for the debt of the Justice Center Public Properties Corporation (PPC), this entity is reported as a blended component unit of the Fiscal Court. During our review of cash we noted the Fiscal Court did not maintain ledgers for receipts and disbursements, did not prepare bank reconciliations, and did not prepare financial statements for fiscal year ended June 30, 2010.

We recommend that the Fiscal Court prepare and maintain ledgers for receipts and disbursements on the PPC fund. We also recommend that bank reconciliations be prepared monthly on all PPC bank accounts. Finally we recommend that the Fiscal Court prepare end of the year financial statements on the PPC fund.

County Judge/Executive Rothenburger's Response: We will work with Ross Sinclair & Associates, the projects Financial Advisor/Institution in an attempt to meet the above recommendation.

INTERNAL CONTROL - MATERIAL WEAKNESSES

2010-02 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Expenditures

The jail commissary administrator makes the deposits, writes and signs most checks, makes entries into the accounting system, and performs bank reconciliations. The result of one person performing all of these duties increases the likelihood that errors or fraud could occur and go undetected by the internal control system. Segregating duties is the best response to this risk. If segregation is not possible, the Jailer should implement strong compensating controls to reduce the risk. Such compensating controls could consist of the Jailer reviewing bank reconciliations and monthly reports, comparing the book balance to the bank balance and looking for unusual reconciling items. Additionally, the Jailer could periodically do surprise cash counts of the deposit to ensure that all funds are correctly accounted for.

County Jailer Waits's Response: Making required changes.

County Judge/Executive Rothenburger's Response: We have discussed this matter with the Jailer and he is aware of the situation.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2010-03 The Jail Commissary Accounting Procedures Are Weak And Records Are Insufficient To Meet Minimum Accounting Standards

We noted the following issues with jail commissary accounting:

- There is no receipts ledger maintained for the jail commissary.
- Outstanding checks from prior years are not accounted for, maintained, or tracked.
- Deposits are made only one time a week, despite large receipt of cash on a regular basis.
- No supporting documentation is maintained for daily balancing, such as; a daily checkout sheet, copy of the deposit ticket or drawer report from Keefe.
- No supporting documentation is maintained for cash deposits, such as a listing of receipts.
- Receipts are not in triplicate, not pre-numbered, and not maintained with daily work.
- The monthly bank reconciliation is prepared only using the bank information. There is no receipts ledger, therefore, no "books" to balance to.
- The annual report is not a reconciliation of books to bank. It contains only bank information.
- There was not sufficient supporting documentation sent with checks to the County Treasurer for fees remitted to the jail fund.
- There was no evidence of supervisory review of expenditures made from the jail commissary account.
- For some expenditures tested, there was not sufficient documentation to support the expenditure.

The lack of sufficient accounting procedures and records for the jail commissary account increases the risk that fraud or a material error could happen and not be prevented or detected by the jailer. Jails are provided guidelines for minimum accounting and reporting standards for the jail commissary in the County Budget Preparation and State Local Finance Officer Policy Manual. We recommend the jailer immediately implement the accounting procedures and begin maintaining the records described in that manual.

We further recommend the following to address the specific issues identified above:

- The jailer should ensure that a receipts ledger is maintained for the commissary account.
- The jailer should properly account for outstanding checks.
- The jailer should require deposits at least twice a week, and more often when a large amount of cash is received.
- The jailer should ensure sufficient supporting documentation is maintained for daily balancing, including receipts, a daily checkout sheet, a copy of the deposit ticket, and a daily drawer report.
- The jailer should issue receipts that are pre-numbered and are in triplicate as required by KRS 64.840. One copy should be given to the inmate (or put in the inmate's file); one copy should be maintained with the daily balancing, and one copy should remain in the receipt book. For voided receipts, all three copies should remain in the receipt book except for voided receipts for fees.
- The jailer should ensure that bank reconciliations are prepared accurately, reflecting a reconciliation of the bank account to the receipts and disbursements ledgers.
- The jailer should prepare an accurate financial statement showing a true reconciliation of the receipts and disbursements ledgers to the bank account.

SHELBY COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2010-03 The Jail Commissary Accounting Procedures Are Weak And Records Are Insufficient To Meet
Minimum Accounting Standards (Continued)

- The jailer should ensure that appropriate documentation, including receipt copies and a summary sheet of fees are submitted to the County Treasurer with the check for fees remitted to the jail fund.
- The jailer should review commissary expenditures and document evidence of the review.
- The jailer should ensure that each expenditure is supported with sufficient documentation.

County Jailer Waits's Response: Will make required changes.

County Judge/Executive Rothenburger's Response: We have discussed this matter with the Jailer and he is aware of the situation.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

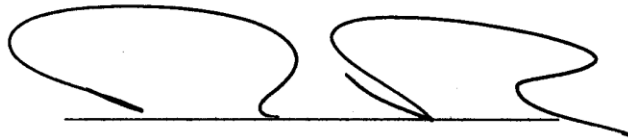
SHELBY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

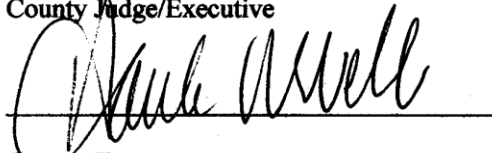
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A stylized, handwritten signature in black ink, consisting of a large loop followed by a series of connected strokes, positioned above a horizontal line.

County Judge/Executive

A stylized, handwritten signature in black ink, appearing to read 'Mike Wells', positioned above a horizontal line.

County Treasurer

